Building repair cost review

Quarterly update
October 2021 to January 2022

8 February 2022

sedgwick

The review

Each quarter, Sedgwick Repair Solutions quantity surveying team reviews the building and construction industry market to understand the primary drivers of cost and ensure that our rates remain competitive. This report provides an overview of the current situation and looks at the issues that could potentially impact insurers' building repair costs over the months ahead.

In our last report, we forecast cost increases of 9% in insurance building repairs during 2021. Further cost increases were anticipated, and we can now report the measure of inflation we've recorded over the full 12-month period. Material cost increases are ongoing, and contractors continue to report difficulties in retaining and recruiting labour.

HEADLINES

- October to end of December – we recorded an increase in costs of 2.04%
- During 2021 – we recorded an increase in contractor input costs of 9.35%
- Contractors continued to have problems in retaining tradespeople and also faced challenges with salaries for managerial staff
- Materials costs continue to rise, and merchants have given advance notice of increases, one noting an average rise of 6.5% in early 2022
- 2022 – we forecast building cost inflation of 6%

PART 1 – BUILDING COST INFLATION

To track the impact on insurance repair work within the building industry, we use our own index that focuses specifically on this market sector. We call this the Insurance Repair Specific Index (IRSI). It monitors the four main cost components typically found in insurance repairs: labour, plant, materials and waste disposal.

Positive cost inflation has continued, and the latest IRSI review shows that input costs increased from October to the end of December by 2.04% and 9.35% over the year. Construction material costs continued to rise for reasons detailed in previous 2021 reports, including reduced manufacturing capacity due to COVID and various distribution problems.

Merchants and manufacturers also highlighted increasing costs due to packaging, carbon costs on cement products and demand due to Chinese factories closing to improve air quality in regions adjacent Olympic sites. Merchants also warned of 2022 price increases – for example, one advised customers in December of 6.5% average price increases to apply in January 2022. Significant price increases for materials were recorded over the last quarter, for example:

- Concrete 5%
- Wallpaper 9%
- Wall tiles 32%

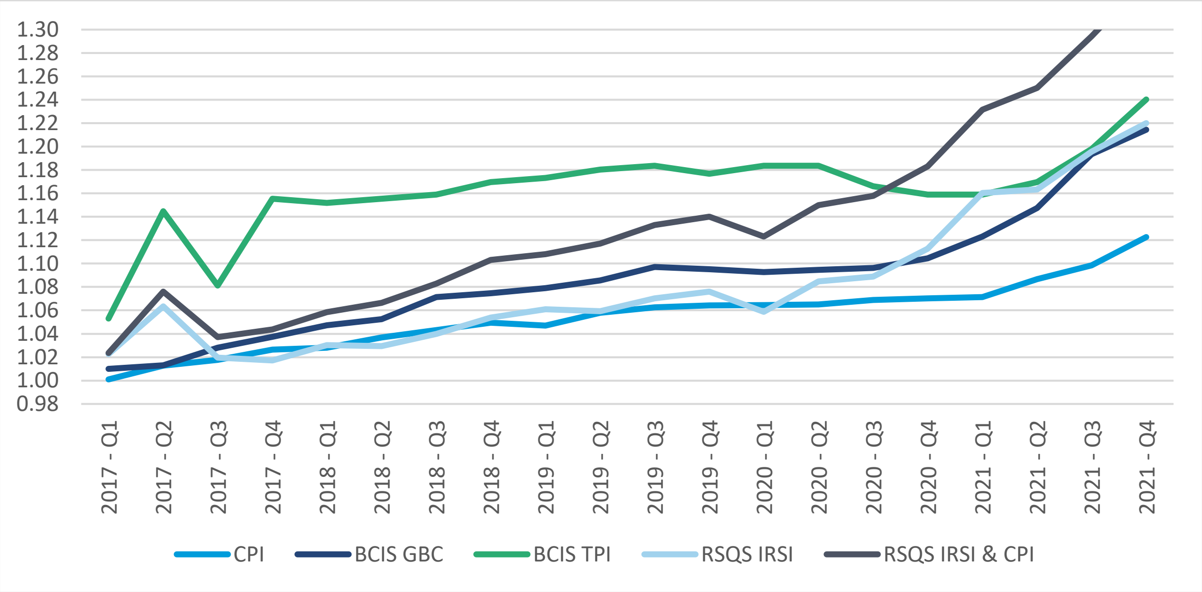
Material shortages continue, and some still have long lead-in periods. Table 1 below shows typical durations.

Table 1. Material lead-in times

Standard doors	min 8-10week lead time
Bricks and blocks	Some order books closed until backlogs removed
Insulation	Some merchants not accepting orders due to backlogs, others 6-8 weeks lead time
Roofing products	Up to 12 weeks lead time
Timber battens	2-4 weeks
Plaster & plasterboard	Some products are on allocation, others 5 week lead time
Cladding	On volume allocation, some merchants not taking orders
UPVC doors and windows	Currently on 15 - 20 week lead time
Roof tiles	Up to 26 weeks

Table 2 below shows how the IRSI compares to the other key indices – the Building Cost Information Service General Building Cost Indices (BCIS GBC) produced by RICS, the Consumer Price Index (CPI), and the BCIS Tender Price Index. All indices show a continuation of an upward trend in cost.

Table 2 Inflation increases 2017 Q1 – 2021 Q4



The Department for Business, Energy and Industrial Strategy monthly statistics of building materials and components shows similar rising costs, and they’ve recorded an increase of 23.5% over 2021.

Material and labour costs will continue to rise in 2022. Other inflationary measures are widely reported, such as energy costs, which will impact increases. However, we optimistically forecast that total repair costs will rise by a further 6% in 2022. We’re expecting that some material costs may begin to fall in Q3.

Contractors continue to find difficulties in recruitment. We’ve commented further in section 4.

PART 2 – RATES BENCHMARKING

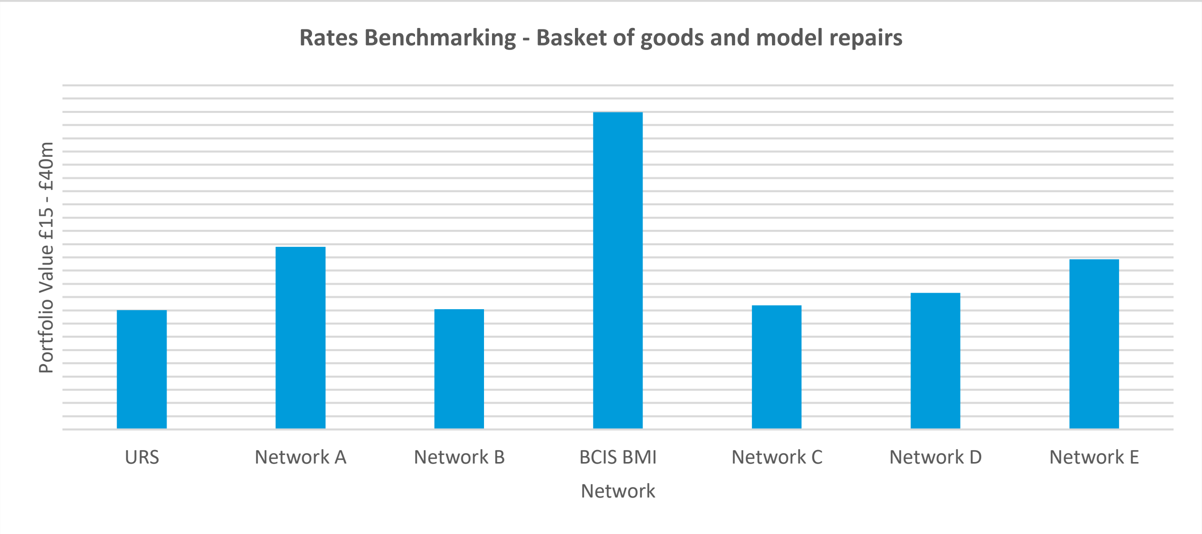
To ensure that Sedgwick Repair Solutions repair costs are competitive, our quantity surveying team undertake a quarterly review of our managed contractor network repair rates – known as the URS. The URS is compared with published rates and those used by other networks in the insurance repair market. We've extended the spread of our benchmarking exercise to include:

- A cost review of 25 of the most frequently used repair rates
- A review of the output costs of repairs on typical £5k and £25k escape of water claims
- A review of the output costs typical of flood, subsidence and fire repairs

We've created a repair portfolio for the benchmarking which represents a typical mix of projects and materials.

The results of this review are shown in table 3 below. The URS remains competitive. It's important to note that the Sedgwick Repair Solutions rates include all network management costs or fees. This isn't the case with the comparative networks shown, where clients would incur additional costs. Typical network fees are c.10% - 15% and we've included an allowance of 10% to all other procurement routes to allow comparison.

Table 3 – benchmarking



PART 3 – DYNAMIC PRICING

Sedgwick Repair Solutions Quantity Surveying team also conducts a specific benchmarking exercise to compare the URS with wider market tenders. This provides a good indication of the competitive nature of URS against tendered repair jobs, which are typically at the higher value end (greater than £50k).

The annual portfolio review involves applying URS rates and rules and comparing the results with tenders received from panel contractors or the customer's preferred building firm. The analysis benchmarks the SRS QS figure against:

- The lowest cost tender
- An average of the lowest two tenders
- An average of all four tenders (lowest quartile). This gives an indication of market pricing of repairs by evidencing the spread of tenders presented

The most recent analysis (as shown in table 4 and 5 below) is as follows:

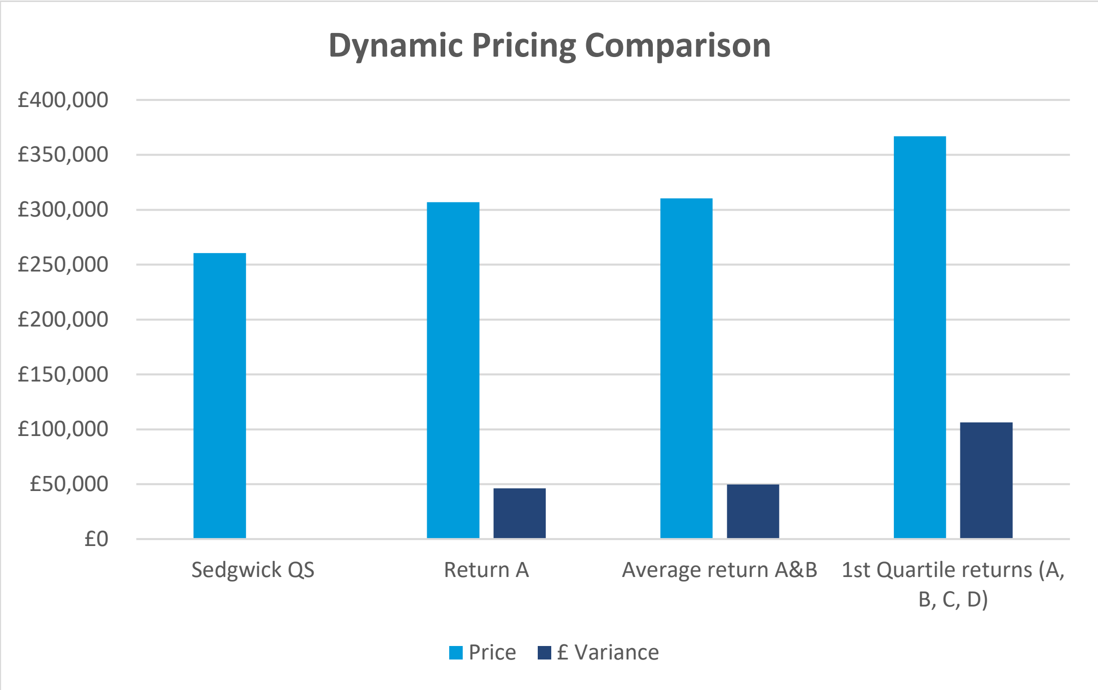
Table 4 - Dynamic pricing cost savings

	Sedgwick QS	Return A	Average return A&B	1st Quartile returns (A, B, C, D)
Price	£260,606	£306,890	£310,394	£366,777.01
£ Variance		£46,284	£49,788	£106,171.07
% Variance		**17.76%**	**19.10%**	**40.74%**

The dynamic pricing is showing a rising level of tender submissions. Last quarter's average lowest quartile return showed a 30.63% variance, which has increased by a further 10.1% in the latest quarter. This illustrates increasing tender costs as the market reflects cost pressures, the availability of projects and the demand on available contractors. The sample size here is though smaller than previous reports.

The use of rates also indicates a saving of >10% compared to the open market. Table 5 illustrates the variances.

Table 5 Dynamic pricing comparisons



PART 4 – MARKET CONDITIONS

Last quarter, we shared details of our contractor survey, which highlighted the difficulties contractors face in recruiting and retaining labour.

We've again spoken with contractors about current market conditions. The Federation of Master Builders has published its Q4 State of Trade Survey. They report 74% of respondents have increased prices to clients. Our contractors advise:

- Recruiting and retaining labour continues to be challenging, and little is expected to change in the foreseeable future. Tradespeople are finding that higher wages are offered in other sectors, particularly housebuilding where the steep hourly rates cannot be matched by contractors in this sector. For example, carpenters outside of London are now earning £50k per annum
- Contractors are facing internal management challenges with supervisory and administrative staff – for example, contract managers are finding operatives may be commanding and receiving higher salaries
- Due to the labour difficulties, there is greater reliance on subcontracted labour
- The volume of non-insurance project enquiries is considerable. Clients are struggling to find reliable and available contractors who are willing and able to accept projects. Price is, in some instances, not a key factor – rather clients are simply looking for someone to start work within a short timescale
- Contractors have seen clients increasing network repair rates

PETER WASSELL

Technical Director

M: +44 7880 780673
E: peter.wassell@uk.sedgwick.com